

**NC STATE  
UNIVERSITY**

College of Agriculture  
and Life Sciences

Agricultural & Resource Economics

NC STATE UNIVERSITY

**POOLE** COLLEGE OF  
MANAGEMENT

**CIMS**



# Executive Farm Management Program

## Brown Family Farm Scenario

February 6-10, 2017

Business Overview

Crop Summary	
Crop	Acres
Tobacco	300
Sweet Potatoes	400
Corn	1000
Soybeans	2000

Equipment List	Number/ Quantity	Value/ Unit	Total Market Value
Disks	2	\$ 25,000	\$ 50,000
Potato flip plow	1	\$ 9,000	\$ 9,000
Tobacco/Potato Plows	3	\$ 15,000	\$ 45,000
Fumigation Rig	1	\$ 10,000	\$ 10,000
Tobacco Bedder	2	\$ 5,000	\$ 10,000
Transplanter	2	\$ 30,000	\$ 60,000
Hiboy	2	\$ 45,000	\$ 90,000
Hooded Sprayer	1	\$ 20,000	\$ 20,000
Bush Hog	1	\$ 15,000	\$ 15,000
Cultivator	2	\$ 7,000	\$ 14,000
Stripper	1	\$ 100,000	\$ 100,000
Stalk Chopper	1	\$ 5,000	\$ 5,000
No-till Planter	1	\$ 80,000	\$ 80,000
No-till Drill	1	\$ 20,000	\$ 20,000
Low Boys	1	\$ 10,000	\$ 10,000
Hopper Bottom Trailers	4	\$ 20,000	\$ 80,000
Flatbed Trailers	1	\$ 5,500	\$ 5,500
Grain Cart	1	\$ 20,000	\$ 20,000
Tobacco Baler	2	\$ 10,000	\$ 20,000
Fertilizer Spreaders	2	\$ 10,000	\$ 20,000
Nitrogen Applicator	2	\$ 10,000	\$ 20,000
Ripper Bedder	1	\$ 5,000	\$ 5,000
Nurse Tanks	3	\$ 5,000	\$ 15,000
Tobacco Loading System	1	\$ 45,000	\$ 45,000
Tobacco Barns	32	\$ 15,000	\$ 480,000
Live Bottom Trailers	6	\$ 6,000	\$ 36,000
Grain Storage 100,000 bu	1	\$ 200,000	\$ 200,000
Conveyors	2	\$ 12,000	\$ 24,000
Combines	2	\$ 250,000	\$ 500,000
Pickups	5	\$ 15,000	\$ 75,000
Trucks 1 ton	2	\$ 35,000	\$ 70,000
Semi-trucks	4	\$ 15,000	\$ 60,000
Trucks 2 ton	2	\$ 35,000	\$ 70,000
Buses/Sweet Potato Haulers	6	\$ 3,000	\$ 18,000
Transport Van	1	\$ 25,000	\$ 25,000
Transport Buses	2	\$ 3,000	\$ 6,000
Tractors 200hp	2	\$ 150,000	\$ 300,000
Tractors 150 hp	2	\$ 75,000	\$ 150,000
Tractors 100 hp	2	\$ 50,000	\$ 100,000
Tractors 50 hp	2	\$ 25,000	\$ 50,000
TOTAL			\$ 2,932,500

## Scenario: Late Winter 2017

John Brown sat at his kitchen table, surrounded by papers. It was early in 2017 – time to think about closing the books and paying the taxes on the year just closed. He sighed and looked out the bay window over part of the Brown Family Farm – beautiful, fertile farmland in Eastern North Carolina. They farmed 3700 acres, spread over parts of two counties. Like most farms in the southeastern US, and particularly in eastern North Carolina, Brown Family Farms grows a variety of crops: corn, soybeans, sweet potatoes, and – of course – tobacco.

Tobacco. Long the lifeblood of North Carolina's farm economy, the crop's best days were long behind it. Regulations in the US regarding the sale of tobacco products and on where they could be enjoyed; higher taxes and hence, much higher consumer prices; a sharp drop in smoking among younger people; increased awareness of health-related issues (and a corresponding increase in people looking to lead healthy lifestyles) are all contributors to the sharp decline in tobacco demand, and hence a decline in overall acreage planted to tobacco. What used to be a dependable source of high income and high profits is now an uncertain part of the future agricultural landscape in these parts.

John thought about the “big picture” of the farm. They currently grow 300 acres of flue-cured tobacco, 400 acres of sweet potatoes, 1,000 acres of corn and about 2000 acres of soybeans. They own 500 acres of land which is valued at \$3,500 per acre. The owned tract has 300 acres of good farm land, 100 acres of managed timber with the remainder in woods and buildings. 3,400 acres of crop land are rented. The farm owns equipment with a current market value of about \$3 million. [A list of equipment precedes this narrative.]

They've seen their contracts for tobacco cut by about 50 acres in recent years (a couple of years ago they grew 350 acres) which is a real concern since tobacco is still the most profitable crop they grow. Sweet potatoes have been good and they've grown their acreage from 300 to 400 acres in the last couple of years which has offset the loss of tobacco pounds. They've put down 1 center pivot on owned land and are considering another. One of the farms they rent has 1 center pivot. They'd like to figure out a way to get another center pivot on one of their rented farms. John recalls walking the field where the center pivot was located and seeing puddles in some spots, and dry land in others. “Strange,” he remembers thinking.

Getting water to the crops is a big concern. It seems like half the time the region is threatened by drought, and the other half is storms like Hurricanes Floyd, and just this past year, Matthew. Drought was so severe in the mid-2000's that the aquifer under eastern North Carolina was starting to be contaminated with brackish water from the ocean – a deadly threat.

John sighed again. “Climate change,” he thought. “People tell me it isn't real, but I've seen the changes since I was a kid. Winters are way more severe than they used to be. We have more tornadoes, and floods, and severe weather than we ever have. At the same time, we are in moderate to severe drought conditions nearly all the time. I'd like to ignore it, but the future of the farm may be at stake.”

He thought about the history of the farm. It is owned as a simple partnership by John Brown and his parents, Kent and Vicky. Kent and Vicky deeply love the farm, having built it from scratch, starting it when they were in their 20's. They've lived through three significant economic recessions and a head-

spinning amount of change in 30+ years running the farm. Kent and Vicky are in their mid-50's and have just had the stark realization that they need to put more away for retirement. All their efforts and most of the farm profits have been plowed back into growing the farm to its current size and putting it on sound financial footing.

John knows that his parents love the farm and would really like his younger sister Ann to join full time, and help John take it to the next level over the course of another generation. Ann will graduate from NCSU in May with a degree in Ag Business Management. John's brother Robert is a banker and not really interested in farming. (Of course, they want to treat Robert equitably also.) The big question facing John is this: *what will farming look like over the next generation?*

They have 3 full time employees and use H2-A labor for the tobacco and sweet potatoes. In 2016 they had a crew of 45 H2-A workers for 26 weeks. Their adverse wage rate was \$10.75 per hour and it cost them \$700 per worker to get them here. They have good housing in place for the H2-A workers.

The Browns know they must grow the business, and think they have several options. They have thought about livestock or poultry production. An older farmer just down the road has two hog finishing floors and has mentioned that he is thinking about selling them in order to slow down. The finishing floors are about 20 years old and would require substantial renovation. The lagoons may require some work as well. A big unknown is just how hog contracts will evolve given the sale of Smithfield to the Chinese. Adding hogs or poultry would be a huge change for them.

Another option is to build a turkey or broiler house on their existing farm. There are 3 hog and turkey integrators in their area. They have indicated to the Browns that they need some farmers to raise turkeys to replace older farms with aging facilities, and would be particularly interested in the Browns if they buy the hog finishing floors. In addition, a poultry company has recently put up a feed mill in the area and is actively pursuing farmers to put up broiler houses.

"This is a non-trivial decision," thought John. "We don't know anything about hogs or poultry. I don't know how I feel about investing millions of dollars in houses and equipment for companies who will dictate my every decision."

But diversification into other agricultural products has some appeal for John. A broader product portfolio would seem to mitigate risk by spreading it across several markets.

The Browns are looking at their options with crops as well. Sweet potatoes have gone well for them, although they are concerned that the rapid expansion of production may exceed the growth in demand and depress prices. With other crop prices down, lots of farmers expanded their sweet potato production, and, as a result, prices were down this year. Still they cleared about \$360 an acre over operating expenses. The future for sweet potatoes still looks fairly bright. It's tasty, nutritious, inexpensive, and easy to prepare.

They've thought about cotton, sorghum, or some kind of produce, maybe cabbage or kale. ("I can't stand kale," John thought. "But it is going crazy.") Some of those have been tried before, but haven't proven to be as dependable or profitable as tobacco, corn, soybeans, and sweet potatoes. Expanding beyond sweet potatoes to other produce is tempting, but it means taking on more risk and hiring more labor. Cotton has had its day, but high tech fibers are putting a damper on its future. Most farmers have decreased cotton acreage or gotten completely out. The hog companies really promoted sorghum

to NC farmers a few years ago, but with corn so cheap the hog companies no longer mention sorghum. But maybe it is time for another look. SOMETHING has to change.

"All this makes sense," he tells himself. "But I'm still at the mercy of weather and the markets. I have no control over what happens to me. I have no idea what people want to buy. It seems that I just grow what 'the man' pays me to grow."

"Let's take a closer look at today's operations," he thought, and gathered his papers together.

The Browns have fared better than many tobacco farmers in that they did not lose any contracts, but did see a reduction in the size of the contracts they have. (*"Is that a one-time event, or a trend?"*) They contract with one cigarette manufacturer and one leaf dealer. (*"Are they the right customers?"*) They struggle with how to position themselves in the future with tobacco. (*"Is there even a future in tobacco?"*) Happily, tobacco and sweet potatoes can share labor. (*"But is that a valid basis for a crop strategy?"*) They feel they produce a good quality crop, but wonder how they might add value to the crop to make it more valuable to their customers. (*"Who really ARE my customers? And what do they really want?"*)

The Browns could expand corn or soybean production. The basis on corn is + 40-90 cents per bushel depending on which hog or poultry integrator you sell to and if and when they forward contract. They've thought about adding grain sorghum to the mix. In the past they have double cropped wheat with soybeans. A few years ago they increased grain storage to 100,000 bushels. However, in 2016, they sold all their corn and soybeans by year end to manage cash flow.

Expansion can be done on existing land if they take some acres out of soybeans and corn and, perhaps, even tobacco. More sweet potatoes will require more H2-A labor and probably mean they need to pursue Global Gaps certification.

Of course, any expansion of commodity crops would require renting or buying more land. In the last five years, rental rates escalated to over \$100 per acre for most crop land with good sweet potato land going to well over \$150 per acre. They have managed to keep their rental rate on corn and soybean land at \$85 per acre and at \$150 per acre on 500 acres of good sweet potato and tobacco land. On the farm they own, they have 200 acres of cropland suitable for tobacco and sweet potatoes. Competition was cutthroat for land rental, but the depressed crop prices of the last two years are putting downward pressure on rental rates.

"This is tough," he said, pushing back and getting up for a stretch. "This is really tough."

## The Characters

**John:** John Brown is 30 years old and a crop science graduate from NCSU. He's married with a toddler. His wife is a school teacher and is not involved in the farm. He worked five years in sales for Crop Production Services, Inc. before returning to the farm two years ago. John was extremely successful in the relationship building and selling process. He didn't love the structure and the extensive time away from his family and found that he struggled to meet his documentation deadlines. In Brown Family Farm partnership with father, mother and sister. John is outgoing and has never met a stranger. He loves to talk, socialize and has always been considered the life of the party. He has a great vision for the farm and how to grow and expand, but hasn't been able to settle on any one solution.

**Kent:** Father of John, husband to Vicky. Kent has worked hard to build this farm. He is dedicated, driven and works from sun up to sun down. He has seen the farm be sustainable over the years and it has supported his family. Technology, consolidation, pressure about retirement are all things on his mind. He has always spoken his mind and it has worked well. His kids used to call him the drill sergeant, but in his farming world, sometimes you had to bark orders in order to get work done. Farming is dangerous, hard work, but he loves it and wouldn't trade it for the world. He has ideas about how to grow his retirement and sustain the farm, but that is going to mean a few changes around the business. He anticipates some difficult conversations in the days ahead.

**Vicky:** Wife of Kent and farm office manager. She is the backbone and everyone knows it. She handles all the reporting, payroll, recording keeping. You name it and she can put her fingers on it and do it. It's a big job that requires detail and patience. She is known around the place for asking lots of questions and keeping track of all the details. The kids know her for her "to do" lists; her long hours in the farm office; and her ability to run their household like a champ. No one seems to understand how she gets everything done, but she manages it. However, it's time for someone else to begin learning the operational/reporting side of the business as she is not getting younger, and the operations are becoming much more complex and labor intensive. She has many questions about what is going to happen in the future. She is looking to her husband to help her family set the direction for the future.

**Robert:** He is a banker. Like John, he is at times outgoing, but not nearly as much. He likes the role of the banker. He is constantly finding solutions and bringing people together to solve problems. It seems like that is the role he has played during his entire life. He has been bridging the gap in his family forever. They come to him to talk through family issues and dynamics and he gets pulled back into family decisions to help them work through disagreements and challenges. He likes that role, but doesn't see himself fully immersed in running the farm anytime in the near future.

**Ann:** She is about to graduate and a ball of fire. She has had the passion of farming in her blood since a little girl. She isn't afraid to speak her mind and often stands up to all her family. She has been studying farm management and is intrigued with the work her mom does in the office as she loves technology, numbers and the facets that make the business work, yet she is thinking about how to take the family farm to the next level in order to support the growing family. She is direct and passionate when she speaks, but not the outgoing personality of her older brothers. John and Kent are excited to have her join the farm but would really prefer she work away from the farm to gain valuable experience that she can return to the business. Ann isn't yet convinced and is chomping at the bit to use her school knowledge immediately to help the business.

# Balance Sheet

## Brown Family Farms - Year End

ASSETS		AMOUNT	LIABILITIES				AMOUNT
<b>CURRENT ASSETS/LIABS (less than 1 year)</b>			LENDER/PURPOSE:	Int Rate	Maturity Date	Payment Prin & Int./Yr.	
1. Cash (checking acct)	\$	5,366	<b>OPERATING LOANS:</b>				
2. Savings Accts	\$	-	Line of Credit	4.75%	3/1/2017	\$ 2,807,221	\$ -
3. Certificates of deposit -CDs	\$	-	Current portion of Inermediate				\$ -
4. Stocks and Bonds (Sch 1)	\$	-	Current portion of Long Term				\$ -
5. Pre-Paid Expenses (Sch 2)	\$	-					\$ -
6. Livestock for sale (Sch 3A)	\$	-					\$ -
7. Growing crops/Feed (Sch 4)	\$	-					\$ -
8. Accts/Notes Rec (Sch 5A)	\$	-	<b>ACCOUNTS PAYABLE:</b>				
9. Stored Crops (Sch 6)	\$	-					\$ -
10.	\$	-					\$ -
11.	\$	-					\$ -
12.	\$	-					\$ -
13.	\$	-					\$ -
14. Cash Value Insurance	\$	-	Borrowings on life insurance				\$ -
15. <b>TOTAL CURRENT</b>	\$	5,366	<b>TOTAL CURRENT</b>				\$ -
<b>INTERMEDIATE ASSETS/LIABS (1 to 7 years)</b>			LENDER/PURPOSE:	Int Rate	Maturity Date	Payment Prin & Int./Yr.	
16. Machinery & Equip (Sch 7)	\$	1,508,500	Equipment Debt	5.00%	1/15/2021	406,400	\$ 1,759,500
17. Breeding livestock (Sch 3B)	\$	-					\$ -
18. Stock in Cooperatives	\$	-					\$ -
19. Personal Property	\$	-					\$ -
20. Accts/Notes Rec (Sch 5B)	\$	-					\$ -
21. Vechicles/Autos (Sch 8)	\$	324,000					\$ -
22. Retirement Accts (Sch 9)	\$	-					\$ -
23. Combine (2)	\$	500,000					\$ -
24. 200hp Tractor (2)	\$	300,000					\$ -
25. 150hp Tractor (2)	\$	150,000					\$ -
26. 100hp Tractor (2)	\$	100,000					\$ -
27. 50hp Tractor (2)	\$	50,000					\$ -
28.	\$	-					\$ -
29. <b>TOTAL INTERMEDIATE</b>	\$	2,932,500	<b>TOTAL INTERMEDIATE</b>				\$ 1,759,500
<b>LONG TERM ASSETS/LIABS (Over 7 years)</b>			Real Estate Liens				
30. <b>Real Estate</b>			LENDER/PURPOSE:	Int Rate	Maturity Date	Payment Prin & Int./Yr.	
Description      Acres      Market Value							
31. Farmland      500      \$ 1,750,000			FarmLand Debt	4.00%	1/15/2031	67,456	\$ 750,000
32. Buildings-farm & labor housin	\$	500,000					\$ -
33.	\$	-					\$ -
34.	\$	-					\$ -
35.	\$	-					\$ -
36.	\$	-					\$ -
37.	\$	-					\$ -
38. <b>Other Fixed Assets</b>			<b>Other Long-term debts</b>				
39.	\$	-					\$ -
40.	\$	-					\$ -
41.	\$	-					\$ -
42. <b>TOTAL LONG TERM</b>	\$	2,250,000	<b>TOTAL LONG TERM</b>				\$ 750,000
			<b>TOTAL LIABILITIES</b>				\$ 2,509,500
			<b>TOTAL NET WORTH ( Total Assets minus Total Liabilities)</b>				\$ 2,678,366
43. <b>TOTAL ASSETS</b>	\$	5,187,866	<b>TOTAL NET WORTH &amp; LIABILITIES</b>				\$ 5,187,866
			Contingent Liabilities:				\$ -



# CASH FLOW STATEMENT

## Brown Family Farms

Period From: 1/1/2016 Period To: 12/31/2016

### CASH INFLOWS

Cash on Hand Beginning of Period	\$ 200,000
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### FARM PRODUCTION & AMOUNT SOLD - CURRENT YEAR:

Commodity	Acres or Units	Avg Yield / Acre	Average Price	Amount
Tobacco	300	2,400	\$ 1.90	\$ 1,368,000
Sweet Potato	400	375	\$ 6.00	\$ 903,500
Corn	1,000	128	\$ 4.10	\$ 524,800
Soybeans	2,000	35	\$ 9.75	\$ 682,500
			\$ -	\$ -
			\$ -	\$ -

<b>Total Farm Receipts</b>	\$ 3,478,800
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Prior Year's Crops	\$ -
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Government Ag Payments	\$ -
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Sale of Items Purchased for Resale	\$ -
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Operating Loan	\$ 2,807,221
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Sale of Capital Assets	\$ -
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Crop Insurance Proceeds	\$ -
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	\$ -
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Non-Farm Income (Schedule 1 below)	\$ -
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Other Income	\$ -
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<b>TOTAL CASH AVAILABLE:</b>	\$ 6,486,021
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### CASH OUTLAYS

Item	Amount
Operating Expenses	\$ -
Tobacco (3339 per acre)	\$ 1,001,700
Sweet Potato(2243 per acre)	\$ 759,200
Corn (339.26 per acre)	\$ 339,000
Soybeans (214.22 per acre)	\$ 428,000
Full time employees	\$ 90,000
Land Rent	\$ 321,500
Insurance	\$ 36,000
Taxes	\$ 36,172
	\$ -
Operating Interest	\$ 88,006

<b>Total Operating Expenses</b>	\$ 3,099,578
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Items Purchased for Resale	\$ -
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Non-Farm Expenses (Schedule 2 below)	\$ -
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Debt Payments:	\$ -
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Loan	\$ -
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Operating Loan	\$ 2,807,221
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Equipment Loan	\$ 406,400
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Land Loan	\$ 67,456
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Capital Purchases	\$ -
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	\$ -
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Family Living	\$ 100,000
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Income taxes	\$ -
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Other Withdrawals	\$ -
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<b>TOTAL CASH OUTLAYS:</b>	\$ 6,480,655
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### C: HISTORICAL CASH FLOW

<b>Total Cash Available</b>	\$ 6,486,021
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<b>Total Cash Outlay</b>	\$ 6,480,655
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<b>Cash Balance (Shortage)</b>	\$ 5,366
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\$ -



## FINANCIAL STATEMENT SCHEDULES

(use as necessary)

HISTORICAL CASH FLOW	
SCHEDULE 1 - NON-FARM INCOME	
Description	Amount
	\$ -
	\$ -
	\$ -
	\$ -
	\$ -
	\$ -
	\$ -
	\$ -
<b>TOTAL SCH 1 (to line 25):</b>	\$ -

SCHEDULE 2 - NON-FARM EXPENSE	
Description	Amount
	\$ -
	\$ -
	\$ -
	\$ -
	\$ -
	\$ -
	\$ -
	\$ -
<b>TOTAL SCH 2 (to line 43):</b>	\$ -

PROJECTED CASH FLOW	
SCHEDULE 1A - NON-FARM INCOME	
Description	Amount
	\$ -
	\$ -
	\$ -
	\$ -
	\$ -
	\$ -
	\$ -
	\$ -
<b>TOTAL SCH 1A (to line 25):</b>	\$ -

SCHEDULE 2A - NON-FARM EXPENSE	
Description	Amount
	\$ -
	\$ -
	\$ -
	\$ -
	\$ -
	\$ -
	\$ -
	\$ -
<b>TOTAL SCH 2A (to line 43):</b>	\$ -



# Net Farm Income Statement

Name	Brown Family Farms		Year	2016
			Income	
<b>Cash Income (can come from IRS Schedule 1)</b>		<b>Income Adjustments</b>	<b>Beginning</b>	<b>Ending</b>
Sales of Tobacco and Sweet Potatoes	\$2,271,500	Crops held for sale or feed (Schedule 1)	\$0	\$0
Sales of Corn and Soybeans	\$1,207,300	Market livestock (Schedule F)	\$0	\$0
Cooperative distributions paid		Accounts receivable (Schedule H)	\$0	\$0
Agricultural program payments		Other current assets	\$200,000	\$200,000
Crop insurance proceeds		Unpaid cooperative distribution	\$0	\$0
Custom hire income		Breeding livestock (Schedule J)	\$0	\$0
Other cash income		Subtotal of adjustments	\$200,000	\$200,000
Sales of breeding livestock		(b) Net adjustment (beginning - ending)		\$0
(a) Total Cash Income	\$3,478,800	(c) Gross Farm Revenue (a - b)		\$3,478,800
Expenses				
<b>Cash Expenses (can come from IRS Schedule 1)</b>		<b>Expense Adjustments (paid or accrued)</b>	<b>Beginning</b>	<b>Ending</b>
Car and truck expenses		Investment in growing crops (Schedule 1)	\$0	\$0
Chemicals	\$443,670	Commercial feed on hand (Schedule 1)	\$0	\$0
Conservation expenses		Prepaid expenses (Schedule E)	\$0	\$0
Custom hire		Supplies on hand (Schedule G)	\$0	\$0
Scouting	\$48,000	Subtotals	\$0	\$0
Feed purchased		(e) Net adjustment (beginning - ending)		\$0
Fertilizer and lime	\$381,822	<b>Expense Adjustments (due)</b>	<b>Beginning</b>	<b>Ending</b>
Freight, trucking	\$101,207	Accounts payable (Schedule O)	\$0	\$0
Gasoline, fuel, oil	\$97,500	Farm taxes due (Schedule P)	\$0	\$0
Insurance	\$52,000	Accrued interest (Schedule Q, R)	\$0	\$0
Interest paid	\$170,927	Subtotals	\$0	\$0
Labor hired	\$543,401	(f) Net adjustment (ending - beginning)		\$0
Grain Drying	\$22,600			
Rent or lease payments	\$321,500	(g) Depreciation (Schedule K, L)	\$0	
Repairs, maintenance	\$93,000	(h) Gross Farm Expenses (d - g)	\$3,178,148	
Seeds, plants	\$411,370			
Storage, warehousing	\$150,000	(j) Net Farm Income from Operations (h - i)	\$300,652	
Supplies purchased	\$67,000			
Taxes (farm)	\$31,821	(j) Sales of farmland (Schedule M)	\$0	
Utilities	\$50,466	(k) Cost value of farmland sold	\$0	
Machinery Cost	\$52,364	(l) Capital gains or losses (j - k)	\$0	
Harvest expenses	\$102,000			
Other Cash Expenses	\$37,500	Net Farm Income (accrual) (i - l)	\$300,652	
(d) Total Cash Expenses	\$3,178,148			
Net Farm Income (cash)	\$300,652	Value of Farm Production		\$3,478,800